



STATE OF MISSISSIPPI  
OFFICE OF THE STATE AUDITOR

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HOLMES COUNTY SCHOOL DISTRICT

Audited Financial Statements  
For the Year Ended June 30, 2003



HOLMES COUNTY SCHOOL DISTRICT

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HOLMES COUNTY SCHOOL DISTRICT

FINANCIAL AUDIT REPORT

HOLMES COUNTY SCHOOL DISTRICT

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## State of Mississippi

OFFICE OF THE STATE AUDITOR  
PHIL BRYANT  
AUDITOR

### INDEPENDENT AUDITOR'S REPORT ON THE BASIC FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION

Superintendent and School Board  
Holmes County School District

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Holmes County School District as of and for the year ended June 30, 2003, which collectively comprise the Holmes County School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Holmes County School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the Holmes County School District, as of June 30, 2003, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 2, during the year ended June 30, 2003, the district implemented a new financial reporting model as required by the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*; GASB Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus*; GASB Statement No. 38, *Certain Financial Statement Note Disclosures*; and GASB Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*.

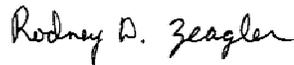
In accordance with *Government Auditing Standards*, we have also issued our report dated June 30, 2004, on our consideration of the Holmes County School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis on pages 7 through 12 and the Budgetary Comparison Schedules and corresponding notes on pages 41 through 46 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Holmes County School District's basic financial statements. The Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.



PHIL BRYANT  
State Auditor



RODNEY D. ZEAGLER, CPA  
Director, Financial and Compliance Audit Division

June 30, 2004

HOLMES COUNTY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

HOLMES COUNTY SCHOOL DISTRICT

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Holmes County School District  
Management's Discussion and Analysis  
For the Year Ended June 30, 2003

The discussion and analysis of Holmes County School District's financial performance provides an overall narrative review of the School District's financial activities for the year ended June 30, 2003. The intent of this discussion and analysis is to look at the School District's performance as a whole; readers should also review the notes to the basic financial statements and the financial statements to enhance their understanding of the School District's financial statements and any accompanying materials. To the extent this discussion contains any forward-looking statements of the district's plans, objectives, expectations and prospects, the actual results could differ materially from those discussed herein.

This discussion and analysis is a new element of Required Supplementary Information specified in the Governmental Accounting Standards Board's (GASB) Statement No. 34 – Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments issued June 1999. Certain comparative information between the current year and the prior year is required to be presented. However, since this is the first year of implementation of the new reporting model contained in GASB Statement No. 34, the Statement permits the omission of prior year data in the year of implementation. The Holmes County School District has elected not to present comparative data.

## **FINANCIAL HIGHLIGHTS**

General revenues accounts for \$17,175,968 in revenue, or 71.21% of all revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for \$6,945,275 or 28.79% of the total revenues.

The District had \$21,787,722 in expenses; only \$6,945,275 of these expenses was offset by program specific charges for services, grants and contribution.

Among major funds, the General Fund has \$15,263,112 in revenues and \$14,532,315 in expenditures. The General Fund's fund balance increased \$778,735 over the prior year. This increase is partially contributed to change in funding method (MAEP).

Long-term debt decreased by \$599,989.

## **OVERVIEW OF FINANCIAL STATEMENTS**

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-wide financial statements.** The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business. These statements are prepared using the accrual basis of accounting and include all assets and liabilities.

The Statement of Net Assets presents information on all the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The Statement of Activities presents information showing how the District's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal years.

The government-wide financial statements outline functions of the District that are principally supported by property taxes and intergovernmental revenues (governmental activities). The governmental activities of the District include instruction, support services, non-instructional, sixteenth section, interest and principal on long-term liabilities.

**Fund financial statements.** A fund is grouping of related accounts that are used to maintain control over resources that have been segregated for specific activities or objectives. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the District can be divided into two categories: governmental funds and fiduciary funds.

**Governmental funds.** Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the District's current financing requirements. Governmental Funds are reported using modified accrual accounting. This method of accounting measures cash and other assets that can be easily converted to cash. The Governmental Funds Statements provide a detailed short-term view of the school district's operations.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the District's current financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The District maintains individual governmental funds in accordance with the Financial Accounting Manual for Mississippi Public School Districts issued by the Mississippi Office of the State Auditor. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for all major funds. All other non-major funds are combined together and presented in these reports as other governmental funds.

**Fiduciary funds.** Fiduciary funds are used to account for resources held for the benefit of parties outside the District. Fiduciary funds are not reflected in the government-wide financial statements because resources of those funds are not available to support the District's own programs. The accrual basis of accounting is used for fiduciary funds. The school district is responsible for ensuring that the assets reported in these funds are used for their intended purpose.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

**Other information.** In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the District's budget process.

The District adopts an annual operating budget for all governmental funds. A budgetary comparison statement has been provided for the General Fund and each additional major fund.

Additionally, a schedule of expenditures of federal awards is required by OMB Cir. A-133 and can be found in this report.

## **GOVERNMENT-WIDE FINANCIAL ANALYSIS**

**Net assets.** Net assets may serve over time as a useful indicator of government's financial position. In the case of the District, assets exceeded liabilities by \$10,688,325 as of June 30, 2003.

By far the largest portion of the District's net assets reflects its investment in capital assets(e.g., land, buildings, building improvements, improvements other than buildings, mobile equipment, furniture and equipment, and construction in progress), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to its students; consequently these assets are not available for future spending.

The following table presents a summary of District's net assets for the fiscal year ended June 30, 2003.

	<u>Amount</u>
Current assets	\$ 7,572,837
Capital assets, net	<u>13,203,463</u>
<b>Total assets</b>	<b>20,776,300</b>
Current liabilities	497,819
Long-term debt outstanding	<u>9,590,156</u>
<b>Total liabilities</b>	<b>10,087,975</b>
<b>Net assets:</b>	
Invested in capital assets, net of related debt	3,753,463
Restricted	3,981,413
Unrestricted	<u>2,953,449</u>
<b>Total net assets</b>	<b>10,688,325</b>

The following are significant current year transactions that have had an impact on the Statement of Net Assets.

**Changes in net assets.** The District's total revenues for the fiscal year ended June 30, 2003 were \$24,121,243. The total cost of all programs and services was \$21,787,722. The following table presents a summary of the changes in net assets for fiscal year ended June 30, 2003.

	<u>Amount</u>
<b>Revenues:</b>	
Program revenues	\$ 6,945,275
General revenues	<u>17,175,968</u>
<b>Total revenues</b>	<b>24,121,243</b>
<b>Expenses:</b>	
Instruction	11,457,726
Support services	7,359,685
Non-instructional	2,435,186
Sixteenth section	36,498
Interest on long-term liabilities	<u>498,627</u>
<b>Total expenses</b>	<b>21,787,722</b>
<b>Increase in net assets</b>	<b>\$ 2,333,521</b>

**Governmental activities.** The following table presents the cost of five major District functional activities: instruction, support services, non-instructional, sixteenth section and interest on long-term debt. The table also shows each function's net cost (total cost less charges for services generated by the activities and intergovernmental aid provided for specific programs). The net cost shows the financial burden that was placed on the State and District's taxpayers by each of these functions.

	<b><u>Total Expenses</u></b>	<b><u>Net(Expense) Revenue</u></b>
Instruction	\$11,457,726	\$ (8,960,125)
Support services	7,359,685	(5,140,315)
Non-instructional	2,435,186	( 206,882)
Sixteenth section	36,498	( 36,498)
Interest on long-term liabilities	<u>498,627</u>	<u>( 498,627)</u>
<b>Total Expenses</b>	<b>\$21,787,722</b>	<b>\$(14,842,447)</b>

Net cost of governmental activities (\$14,842,447), was financed by general revenue, which is made up of primarily property taxes (\$2,731,599) and state revenue (\$13,055,328).

## **FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS**

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental funds.** The focus of the District's governmental funds is to provide information on current inflows, outflows and balances of spendable resources. Such information is useful in assessing the District's financing requirements. In particular, unreserved fund balance may serve as a useful measure of the District's net resources available for spending at the end of the fiscal year.

The financial performance of the District as a whole is reflected in its governmental funds. As the District completed the year, its governmental funds reported a combined fund balance of \$7,176,127. \$3,093,605 or 43% of the fund balance constitutes unreserved and undesignated fund balance, which is available for spending at the District's discretion.

The General Fund is the principal operating fund of the District. The increase in fund balance in the General Fund for the fiscal year was \$778,735 a result of change in state funding from Minimum Program to Mississippi Adequate Funding Program. The fund balance of Other Governmental Funds showed an decrease of \$140,324 due primarily to changes in classification of funds and increase in interest received.

## **BUDGETARY HIGHLIGHTS**

Over the course of the year, the District revised the annual operating budget twice because of need for more textbooks, students' desk and changes in the original budgeted amounts underestimated for potential cuts by the Mississippi legislature; this was done upon suggestion of the Mississippi Department of Education.

## **CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets.** As of June 30, 2003, the District's total capital assets were \$19,253,698, including land, construction in progress, school building, buses, other school vehicles and furniture and equipment. This amount represents an increase of \$939,859 from previous year. Total accumulated depreciation as of June 30, 2003 was \$6,050,235 and total depreciation expense for the year was \$469,994, resulting in total net assets of \$13,203,463.

Additional information of the District's capital assets can be found in Note 5 of this report.

**Debt Administration.** At June 30, 2003, the District had \$9,590,156 in general obligation bonds and other long-term debt outstanding, of which \$610,000 is due within one year.

Additional information of the District's long-term debt can be found in Note 6 of this report.

## **CURRENT ISSUES**

The Holmes County School District is financially stable.

Latest enrollment figures indicate that student enrollment in the District has declined. The budget for the next year has taken into account this reduction in both funding and staffing needs.

The changing of funding from Minimum Program to the Mississippi Adequate Education Program where funding will be based on ADA the district will be under funded because of poor ADA causing fund balance to decrease.

This is an election year and there may be a change in administration.

If you have any questions about this report, contact the Superintendent's Office of the Holmes County School District, 313 Olive Street, P O Box 630, Lexington, MS 39095.

HOLMES COUNTY SCHOOL DISTRICT

FINANCIAL STATEMENTS

HOLMES COUNTY SCHOOL DISTRICT

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HOLMES COUNTY SCHOOL DISTRICT  
Statement of Net Assets  
June 30, 2003

Exhibit A

	<u>Governmental Activities</u>
<b>Assets</b>	
Cash and cash equivalents	\$ 6,034,819
Due from other governments	1,119,152
Inventories and prepaid items	53,647
Restricted assets	365,219
Capital assets, net	<u>13,203,463</u>
 Total Assets	 <u>20,776,300</u>
<b>Liabilities</b>	
Accounts payable and accrued liabilities	396,710
Interest payable on long-term liabilities	101,109
Long-term liabilities, due within one year	
Capital related liabilities	610,000
Long-term liabilities, due beyond one year	
Capital related liabilities	8,840,000
Non-capital related liabilities	<u>140,156</u>
 Total Liabilities	 <u>10,087,975</u>
<b>Net Assets</b>	
Investment in capital assets, net of related debt	3,753,463
Restricted net assets:	
Expendable:	
School-based activities	3,012,157
Debt service	396,414
Forestry improvements	159,126
Unemployment benefits	82,074
Non-expendable:	
Sixteenth section	331,642
Unrestricted	<u>2,953,449</u>
 Total Net Assets	 <u>\$ 10,688,325</u>

The notes to the financial statements are an integral part of this statement.

HOLMES COUNTY SCHOOL DISTRICT  
Statement of Activities  
For the Year Ended June 30, 2003

Exhibit B

Functions/Programs	Expenses	Program Revenues			Net (Expense)
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Changes in Net Assets
					Governmental Activities
Governmental Activities:					
Instruction	\$ 11,457,726	193,672	2,303,929		(8,960,125)
Support services	7,359,685		2,219,370		(5,140,315)
Non-instructional	2,435,186	39,359	2,188,945		(206,882)
Sixteenth section	36,498				(36,498)
Interest on long-term liabilities	498,627				(498,627)
<b>Total Governmental Activities</b>	<b>\$ 21,787,722</b>	<b>233,031</b>	<b>6,712,244</b>	<b>0</b>	<b>(14,842,447)</b>

General Revenues:

Taxes:

General purpose levies	2,574,475
Debt purpose levies	157,124

Unrestricted grants and contributions:

State	13,055,328
Federal	108,222
Unrestricted investment earnings	150,411
Sixteenth section sources	895,964
Other	234,444
<b>Total General Revenues</b>	<b>17,175,968</b>

Change in Net Assets 2,333,521

Net Assets - Beginning 8,350,750

Prior period adjustments 4,054

Net Assets - Beginning - Restated 8,354,804

Net Assets - Ending \$ 10,688,325

The notes to the financial statements are an integral part of this statement.

	Major Funds					Other Governmental Funds	Total Governmental Funds
	General Fund	Title I Fund	Title II Fund	Sixteenth Section Interest Fund	SVM Insurance Fund		
<b>ASSETS</b>							
Cash and cash equivalents	\$ 2,684,401			1,069,813	1,057,961	1,554,286	6,366,461
Cash with fiscal agents						741	741
Investments						32,836	32,836
Due from other governments	162,145	182,412	203,658			565,051	1,113,266
Due from other funds	631,406						631,406
Inventories and prepaid items						53,647	53,647
<b>Total Assets</b>	<b>\$ 3,477,952</b>	<b>182,412</b>	<b>203,658</b>	<b>1,069,813</b>	<b>1,057,961</b>	<b>2,206,561</b>	<b>8,198,357</b>
<b>LIABILITIES AND FUND BALANCES</b>							
<b>Liabilities:</b>							
Accounts payable and accrued liabilities	\$ 384,347	1,897		5,000		5,466	396,710
Due to other funds		180,515	203,658			241,347	625,520
<b>Total Liabilities</b>	<b>384,347</b>	<b>182,412</b>	<b>203,658</b>	<b>5,000</b>	<b>0</b>	<b>246,813</b>	<b>1,022,230</b>
<b>Fund Balances:</b>							
<b>Reserved for:</b>							
Inventory						53,647	53,647
<b>Unreserved:</b>							
<b>Undesignated, reported in:</b>							
General Fund	3,093,605						3,093,605
Special Revenue Funds				1,064,813	1,057,961	1,076,937	3,199,711
Debt Service Funds						497,522	497,522
Permanent Funds						331,642	331,642
<b>Total Fund Balances</b>	<b>3,093,605</b>	<b>0</b>	<b>0</b>	<b>1,064,813</b>	<b>1,057,961</b>	<b>1,959,748</b>	<b>7,176,127</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 3,477,952</b>	<b>182,412</b>	<b>203,658</b>	<b>1,069,813</b>	<b>1,057,961</b>	<b>2,206,561</b>	<b>8,198,357</b>

The notes to the financial statements are an integral part of this statement.

HOLMES COUNTY SCHOOL DISTRICT  
 Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Assets  
 June 30, 2003

Exhibit C-1

	<u>Amount</u>
Total Fund Balance - Governmental Funds	\$ 7,176,127
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
1. Capital assets are used in governmental activities and are not financial resources and therefore are not reported in the funds, net of accumulated depreciation of \$6,050,235.	13,203,463
2. Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.	
3. Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.	(9,590,156)
4. Accrued interest payable is not due and payable in the current period and therefore are not reported in the funds.	<u>(101,109)</u>
Total Net Assets - Governmental Activities	<u>\$ 10,688,325</u>

The notes to the financial statements are an integral part of this statement.

HOLMES COUNTY SCHOOL DISTRICT  
Statement of Revenues, Expenditures and Changes in Fund Balances  
Governmental Funds  
For the Year Ended June 30, 2003

Exhibit D

	Major Funds					Other Governmental Funds	Total Governmental Funds
	General Fund	Title I Fund	Title II Fund	Sixteenth Section Interest Fund	SVM Insurance Fund		
<b>Revenues:</b>							
Local sources	\$ 2,909,878	2,888	35			404,843	3,317,644
State sources	12,231,333					1,431,880	13,663,213
Federal sources	121,901	2,355,633	466,722			3,264,091	6,208,347
Sixteenth section sources				841,782		90,257	932,039
<b>Total Revenues</b>	<b>15,263,112</b>	<b>2,358,521</b>	<b>466,757</b>	<b>841,782</b>	<b>0</b>	<b>5,191,071</b>	<b>24,121,243</b>
<b>Expenditures:</b>							
Instruction	8,668,321	1,124,176	89,233			1,323,807	11,205,537
Support services	4,904,817	1,185,955	225,663		17,648	1,191,642	7,525,725
Noninstructional services	171,814	196,021				2,062,625	2,430,460
Sixteenth section				34,976		1,522	36,498
Facilities acquisition and construction	596,993				50,323	222,028	869,344
<b>Debt service:</b>							
Principal	52,015					522,985	575,000
Interest	136,704					365,330	502,034
Other	1,651					1,637	3,288
<b>Total Expenditures</b>	<b>14,532,315</b>	<b>2,506,152</b>	<b>314,896</b>	<b>34,976</b>	<b>67,971</b>	<b>5,691,576</b>	<b>23,147,886</b>
<b>Excess (Deficiency) of Revenues over Expenditures</b>	<b>730,797</b>	<b>(147,631)</b>	<b>151,861</b>	<b>806,806</b>	<b>(67,971)</b>	<b>(500,505)</b>	<b>973,357</b>
<b>Other Financing Sources (Uses):</b>							
Sale of other property	461						461
Operating transfers in	404,231	151,861				364,164	920,256
Operating transfers out	(364,165)	(4,230)	(151,861)	(400,000)			(920,256)
<b>Total Other Financing Sources (Uses)</b>	<b>40,527</b>	<b>147,631</b>	<b>(151,861)</b>	<b>(400,000)</b>	<b>0</b>	<b>364,164</b>	<b>461</b>
<b>Net Change in Fund Balances</b>	<b>771,324</b>	<b>0</b>	<b>0</b>	<b>406,806</b>	<b>(67,971)</b>	<b>(136,341)</b>	<b>973,818</b>
<b>Fund Balances:</b>							
July 1, 2002	2,314,870			658,007	1,129,399	2,100,072	6,202,348
Prior period adjustments	7,411				(3,467)	110	4,054
July 1, 2002, as restated	2,322,281	0	0	658,007	1,125,932	2,100,182	6,206,402
Decrease in reserve for inventory	0	0	0	0	0	(4,093)	(4,093)
<b>June 30, 2003</b>	<b>\$ 3,093,605</b>	<b>0</b>	<b>0</b>	<b>1,064,813</b>	<b>1,057,961</b>	<b>1,959,748</b>	<b>7,176,127</b>

The notes to the financial statements are an integral part of this statement.

HOLMES COUNTY SCHOOL DISTRICT  
 Reconciliation of the Governmental Funds Statement of Revenues,  
 Expenditures and Changes in Fund Balances to the Statement of Activities  
 For the Year Ended June 30, 2003

Exhibit D-1

	<u>Amount</u>
Net Change in Fund Balances - Governmental Funds	\$ 973,818
Amounts reported for governmental activities in the Statement of Activities are different because:	
1. Governmental funds report capital outlays as expenditures while governmental activities report depreciation to allocate those expenditures over the life of the assets. Capital asset purchases amounted to \$1,227,869, and the depreciation expense amounted to \$469,994.	757,875
2. Payment of principal on long-term liabilities is reported as an expenditure in the governmental funds, but the payment reduces long-term liabilities in the Statement of Activities.	575,000
3. Governmental funds recognize interest on long-term debt when it becomes due, however, the Statement of Activities recognizes interest as it accrues regardless of when it becomes due.	6,695
4. Proceeds from the sale of assets are reported in the governmental funds as revenues, but only the gain or loss on the sale of assets is reported in the statement of activities.	(461)
5. Gains and losses on the sale or disposals of assets are not reported in the governmental funds, but are reported in the Statement of Activities, net of proceeds.	(302)
6. Decrease in the inventory is reported as an adjustment to fund balance in the governmental funds, but noninstructional expenditures are increased in the Statement of Activities.	(4,093)
7. Expenses in the statement of activities not normally paid with expendable available financial resources are not reported as expenditures in the governmental funds:	
Compensated absences	<u>24,989</u>
Change in Net Assets of Governmental Activities	<u>\$ 2,333,521</u>

The notes to the financial statements are an integral part of this statement.

HOLMES COUNTY SCHOOL DISTRICT  
Statement of Fiduciary Net Assets  
June 30, 2003

Exhibit E

	<u>Agency Funds</u>
<b>Assets</b>	
Cash and cash equivalents	\$ 640,168
<b>Total Assets</b>	<b>\$ 640,168</b>
<b>Liabilities</b>	
Accounts payable and accrued liabilities	\$ 605,223
Due to other funds	5,886
Due to student clubs	29,059
<b>Total Liabilities</b>	<b>\$ 640,168</b>

The notes to the financial statements are an integral part of this statement.

## HOLMES COUNTY SCHOOL DISTRICT

### Notes to Financial Statements For the Year Ended June 30, 2003

#### (1) Summary of Significant Accounting Policies.

The accompanying financial statements of the school district have been prepared in conformity with generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). GASB is the accepted standard-setting body for governmental accounting and financial reporting principles. The most significant of the school district's accounting policies are described below.

##### A. Financial Reporting Entity.

For financial reporting purposes, the reporting entity includes all funds that are covered by the oversight responsibility of the school district's governing board. As defined by accounting principles generally accepted in the United States of America, the school district is considered a "primary government." The school district is governed by a five member board which each member was elected by the citizens of each defined county district.

The Holmes County Leasing Authority ("the Authority") as explained in the following paragraph is considered to be a blended component unit as determined by Section 2100 of the *Codification of Governmental Accounting and Financial Reporting Standards* and is included in the district's reporting entity.

The Authority is governed by a five member board which was appointed by the school district's governing board. Although it is legally separate from the school district, it is reported as if it is part of the primary government because its sole purpose is to provide financing for the renovation, improvement, construction, and equipping of certain school facilities. Therefore, all of the Authority's assets, liabilities, equity, revenues, expenditures and other financing sources and uses have been included in the government-wide financial statements of the school district (see Note 14).

##### B. Basis of Presentation.

The school district's basic financial statement consist of government-wide statements, including a statement of net assets and a statement of activities, and fund financial statements, which provide a more detailed level of financial information.

##### *Government-wide Financial Statements:*

The Statement of Net Assets and Statement of Activities display information about the school district as a whole. They include all funds of the reporting entity except for Fiduciary Funds, if applicable. Governmental activities generally are financed through taxes, intergovernmental revenues and other nonexchange revenues.

## HOLMES COUNTY SCHOOL DISTRICT

### Notes to Financial Statements For the Year Ended June 30, 2003

The Statement of Net Assets presents the financial condition of the governmental activities of the school district at year-end. The government-wide Statement of Activities presents a comparison between direct expenses and program revenues for each function or program of the school district's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues, which are not classified as program revenues, are presented as general revenues of the school district, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the school district.

#### *Fund Financial Statements:*

Fund financial statements of the school district are organized into funds, each of which is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues and expenditures/expenses. Funds are organized into two major categories: governmental and fiduciary. An emphasis is placed on major funds within the governmental category.

#### C. Measurement Focus and Basis of Accounting.

In the government-wide Statement of Net Assets and Statement of Activities, governmental activities are presented using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Program revenues on the Statement of Activities consist primarily of state appropriations and federal awards.

In the fund financial statements, governmental funds and agency funds are presented using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when "measurable and available". Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or within sixty days after year end. Property taxes, state appropriations and federal awards associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. Expenditures (including capital outlay) are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported when due.

The school district reports the following major governmental funds:

General Fund - This is the school district's primary operating fund. It accounts for all financial resources of the school district, except those required to be accounted for in another fund.

Title I Fund - This fund is used to account for revenues and expenditures of the federal program which is used to improve the teaching and learning of children failing, or most at-risk of failing, to meet challenging state academic standards. It allows the district to upgrade the school's overall instructional program.

Title II Fund - This fund is used to account for revenues and expenditures of the federal program which is used to assist in effectively recruiting and retaining highly qualified teachers, principals and assistant principals.

## HOLMES COUNTY SCHOOL DISTRICT

### Notes to Financial Statements For the Year Ended June 30, 2003

Sixteenth Section Interest Fund - This fund serves to collect expendable sixteenth section revenues from various sixteenth section sources. Expendable revenues from this fund are either shared with other school districts or transferred to the district's General Fund per specific statutory board order.

SVM Insurance Fund - This fund is used to account for repair and maintenance services, road work and site improvements at S. V. Marshall School.

All other governmental funds not meeting the criteria established for major funds are presented in the other governmental column of the fund financial statements.

Additionally, the school district reports the following fund types:

#### GOVERNMENTAL FUNDS

Special Revenue Funds - Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted for specific expenditure purposes.

Capital Projects Funds - Capital Projects Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities.

Debt Service Funds - Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs.

Permanent Funds - Permanent Funds are used to account for resources that are legally restricted to the extent that only earnings, and not the principal, may be used for purposes that support the district's programs.

#### FIDUCIARY FUNDS

Agency Funds - Agency Funds are used to report resources held by the district in a purely custodial capacity (assets equal liabilities) and do not involve measurement of results of operations.

#### D. Account Classifications.

The account classifications used in the financial statements conform to the classifications prescribed in the *Financial Accounting Manual for Mississippi Public School Districts* issued by the Office of the State Auditor. The classifications in that manual are consistent with the broad classifications recommended in *Financial Accounting for Local and State School Systems, 1990* issued by the U.S. Department of Education.

#### E. Encumbrances.

An encumbrance system is not maintained to account for commitments resulting from approved purchase orders, work orders and contracts.

#### F. Cash and Cash Equivalents.

The school district deposits excess funds in the financial institutions selected by the school board. State statutes specify how these depositories are to be selected.

HOLMES COUNTY SCHOOL DISTRICT

Notes to Financial Statements  
For the Year Ended June 30, 2003

Cash and cash equivalents consists of amounts on deposit in demand accounts and certificates of deposit with maturities of 12 months or less. Cash and cash equivalents are valued at cost.

G. Investments.

The school district can invest its excess funds, as permitted by Section 29-3-113, Miss. Code Ann. (1972), in interest-bearing deposits or other obligations of the types described in Section 27-105-33, Miss. Code Ann. (1972), or in any other type investment in which any other agency, instrumentality or subdivision of the State of Mississippi may invest, except that 100% of said funds are authorized to be so invested.

For accounting purposes, certificates of deposit are classified as investments if they have a maturity greater than 12 months when acquired.

H. Inventories and Prepaid Items.

Donated commodities are received from the USDA and are valued at USDA cost. Other inventories are valued at cost (calculated on the first-in, first-out basis).

The costs of governmental fund type inventories are reported as expenditures when purchased.

Prepaid items, such as prepaid insurance, are not reported for governmental fund types since the costs of such items are accounted for as expenditures in the period of acquisition.

I. Capital Assets.

Capital assets are reported at actual or estimated historical cost based on appraisals or deflated current replacement cost. Contributed assets are reported at estimated fair value at the time received.

Capitalization thresholds (dollar value above which asset acquisitions are added to the capital asset accounts) and estimated useful lives of capital assets are reported in the government-wide statements. Depreciation is calculated on the straight-line basis for all assets, except land. The following schedule details those thresholds.

	<u>Capitalization Policy</u>	<u>Estimated Useful Life</u>
Land	\$ 0	0
Buildings	50,000	40 years
Building improvements	25,000	20 years
Improvements other than buildings	25,000	20 years
Mobile equipment	5,000	5-10 years
Furniture and equipment	5,000	3-7 years
Leased property under capital leases	*	*

(\*) The threshold amount will correspond with the amounts for the asset classifications, as listed. See Note 5 for details.

## HOLMES COUNTY SCHOOL DISTRICT

### Notes to Financial Statements For the Year Ended June 30, 2003

#### J. Long-term liabilities.

Long-term liabilities are the unmatured principal of bonds, warrants, notes, or other forms of noncurrent or long-term general obligation indebtedness. Long-term liabilities are not limited to liabilities from debt issuances, but may also include liabilities on lease-purchase agreements and other commitments. Long-term liabilities should not be reported as liabilities in governmental funds, but should be reported in the governmental activities column in the government-wide Statement of Net Assets. See Note 6 for details.

#### K. Interfund Transactions and Balances.

Interfund transactions and balances are the result of timing differences between the date expenses/expenditures occur and the date payments are made.

Short-term (due within one year) interfund loan receivables are reported as "due from other funds" and are considered available expendable resources.

Transfers are used to (a) move revenues from the fund that statute or budget requires to collect to the fund that statute or budget requires to expend them and to (b) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

Interfund receivables and payables between funds within governmental activities are eliminated in the Statement of Net Assets. See Note 4 for details for interfund transactions, including receivables and payables at year-end.

#### L. Equity Classifications.

##### *Government-wide Financial Statements:*

Equity is classified as net assets and displayed in three components:

1. Invested in capital assets, net of related debt - Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, constructions or improvement of those assets.
2. Restricted net assets - Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
3. Unrestricted net assets - All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

##### *Fund Financial Statements:*

Governmental fund equity is classified as fund balance. Fund balance is further classified as reserved and unreserved, with unreserved classified as designated and undesignated.

Fund reserves are portions of fund equity that are legally segregated for a specific future use or are not available for current operations. Following is a description of fund reserves used by the district:

Reserved for inventory - An account that represents a portion of the fund balance which indicates that inventories do not represent available spendable resources even though they are a component of net current assets.

## HOLMES COUNTY SCHOOL DISTRICT

### Notes to Financial Statements For the Year Ended June 30, 2003

#### M. Property Taxes.

Ad valorem property taxes are levied by the governing authority of the county on behalf of the school district based upon an order adopted by the school board of the school district requesting an ad valorem tax effort in dollars. Since the taxes are not levied and collected by the school district, the revenues to be generated by the annual levies are not recognized until the taxes are actually collected by the tax levying authority.

#### N. Mississippi Adequate Education Program Revenues.

Revenues from the adequate education program are appropriated on a fiscal year basis and are recorded at the time the revenues are received from the State of Mississippi.

#### O. Compensated Absences.

Employees of the school district accumulate sick leave at a minimum amount as required by state law or at a greater amount provided by school district policy. Some employees are allowed personal leave and/or vacation leave in accordance with school district policy. The district pays for unused leave for employees as required by Section 37-7-307(5), Miss. Code Ann. (1972).

The liability for these compensated absences is recorded as long-term liabilities in the government-wide statements. The current portion of this liability is estimated based on historical trends. In the fund financial statements, governmental funds report only the compensated absence liability payable from expendable available financial resources.

#### (2) Changes in Accounting Principles and Restatement of Fund Balance.

For the fiscal year ended June 30, 2003, the school district implemented Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*; GASB Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus*; GASB Statement No. 38, *Certain Financial Statement Note Disclosures*; and GASB Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*.

At June 30, 2003, there was no effect on fund balances as a result of implementing GASB Statements 37 and 38.

GASB Statement No. 34 creates new basic financial statements for reporting on the school district's financial activities. The financial statements now include government-wide financial statements prepared on the accrual basis of accounting, and fund financial statements prepared on the modified accrual basis of accounting, which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

The beginning net asset amount for governmental programs reflects the change in fund balance for governmental funds at June 30, 2002, caused by the conversion to GASB Statement No. 34.

HOLMES COUNTY SCHOOL DISTRICT

Notes to Financial Statements  
For the Year Ended June 30, 2003

GASB Interpretation No. 6 clarifies the application of standards for modified accrual recognition of certain liabilities and expenditures in areas where differences have arisen, or potentially could arise, in interpretation and practice.

	General Fund	Title I Fund	Title II Fund	SVM Insurance Fund	Sixteenth Section Interest Fund	Other Governmental Funds	Total Governmental Funds
Fund Balances, June 30, 2002							
As Originally Presented	\$ 2,314,870			1,129,399		1,614,495	5,058,764
GASB Statement No. 34 Adjustments and Restatements:							
Changes in fund structure					658,007	485,577	1,143,584
Restated Fund Balance, June 30, 2002	\$ <u>2,314,870</u>	<u>0</u>	<u>0</u>	<u>1,129,399</u>	<u>658,007</u>	<u>2,100,072</u>	<u>6,202,348</u>
GASB Interpretation 6:							
Compensated absences payable							(165,145)
GASB Statement No. 34 Adjustment:							
Capital assets							12,726,733
Accrued interest payable							(107,804)
Long-term liabilities							(10,025,000)
Overstatement of capital assets							<u>(280,382)</u>
Governmental Activities Net Assets, June 30, 2002							\$ <u><u>8,350,750</u></u>

(3) Cash and Cash Equivalents, Cash with Fiscal Agents, and Investments.

Cash and Cash Equivalents.

The collateral for public entities' deposits in financial institutions is held in the name of the State Treasurer under a program established by the Mississippi State Legislature and is governed by Section 27-105-5, Miss. Code Ann. (1972). Under this program, the entity's funds are protected through a collateral pool administered by the State Treasurer. Financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Depository Insurance Corporation.

The carrying amount of the school district's deposits with financial institutions was \$7,006,629, and the bank balance was \$7,946,137.

Cash with Fiscal Agents.

The carrying amount of school district's cash with fiscal agents held by financial institutions was \$741.

Investments.

Except for nonparticipating investment contracts and for participating interest-earning investment contracts and money market investments that had a remaining maturity at the time of purchase of one year or less, investments are reported at fair value which is based on quoted market price. Nonparticipating investment contracts such as repurchase agreements and nonnegotiable certificates of deposit are reported at cost. Participating interest-earning investment contracts and money market investments that had a remaining maturity at time of purchase of one year or less are reported at amortized cost.

HOLMES COUNTY SCHOOL DISTRICT

Notes to Financial Statements  
For the Year Ended June 30, 2003

Investments made by the school district that are included on the balance sheet are summarized below. The investments that are represented by specific identifiable investment securities are classified as to credit risk by the categories described below:

Category 1 - Insured or registered or for which the securities are held by the school district or its agent in the school district's name.

Category 2 - Uninsured and unregistered for which the securities are held by the broker or dealer's trust department or agent in the school district's name.

Category 3 - Uninsured and unregistered for which the securities are held by the broker or dealer, or by its trust department or agent but not in the school district's name.

Investment Type	Category			Carrying Amount	Market Value
	1	2	3		
U.S. Treasury bill	\$	32,836		32,836	32,836
Subtotal	\$	<u>0</u>	<u>32,836</u>	<u>0</u>	32,836
Total Investments				\$ <u>32,836</u>	<u>32,836</u>

(4) Interfund Transactions and Balances.

The following is a summary of interfund transactions and balances:

A. Due From/To Other Funds:

	Due From	Due To
Governmental Funds:		
General Fund	\$ 631,406	
Title I Fund		180,515
Title II Fund		203,658
Other governmental funds		241,347
Fiduciary Funds		5,886
Total	\$ <u>631,406</u>	<u>631,406</u>

B. Transfers In/Out.

	Transfer In	Transfers Out
Governmental Funds:		
General Fund	\$ 404,231	364,165
Title I Fund	151,861	4,230
Sixteenth Section Interest Fund		400,000
Title II Fund		151,861
Other governmental funds	364,164	
Total	\$ <u>920,256</u>	<u>920,256</u>

HOLMES COUNTY SCHOOL DISTRICT

Notes to Financial Statements  
For the Year Ended June 30, 2003

(5) Capital Assets.

The following is a summary of changes in capital assets for governmental activities:

	Balance 7-1-2002	Additions	Retirements	Completed Construction	Adjustments	Balance 6-30-2003
<u>Non-depreciable capital assets:</u>						
Land	\$ 57,310					57,310
Construction in progress		830,244				830,244
Total non-depreciable capital assets	<u>57,310</u>	<u>830,244</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>887,554</u>
<u>Depreciable capital assets:</u>						
Buildings	13,572,733					13,572,733
Building improvements	396,432					396,432
Improvements other than buildings	1,593,126	39,100			3,467	1,635,693
Mobile equipment	1,778,990	286,392	7,628		7,628	2,065,382
Furniture and equipment	614,191	72,133			9,580	695,904
Leased property under capital leases	301,057				(301,057)	
Total depreciable capital assets	<u>18,256,529</u>	<u>397,625</u>	<u>7,628</u>	<u>0</u>	<u>(280,382)</u>	<u>18,366,144</u>
<u>Less accumulated depreciation for:</u>						
Buildings	3,548,907	245,137				3,794,044
Building improvements	45,282	15,857				61,139
Improvements other than buildings	260,069	65,289				325,358
Mobile equipment	1,232,432	108,233	6,865			1,333,800
Furniture and equipment	500,416	35,478				535,894
Total accumulated depreciation	<u>5,587,106</u>	<u>469,994</u>	<u>6,865</u>	<u>0</u>	<u>0</u>	<u>6,050,235</u>
Total depreciable capital assets, net	<u>12,669,423</u>	<u>(72,369)</u>	<u>763</u>	<u>0</u>	<u>(280,382)</u>	<u>12,315,909</u>
Governmental activities capital assets, net	<u>\$ 12,726,733</u>	<u>757,875</u>	<u>763</u>	<u>0</u>	<u>(280,382)</u>	<u>13,203,463</u>

An adjustment in the amount of \$20,675 was made for capital assets omitted from the prior year audit report. An adjustment of \$301,057 was made to remove software reported as leased equipment.

Depreciation expense was charged to the following governmental functions:

	Amount
Instruction	\$ 314,261
Support services	132,840
Non-instructional	<u>22,893</u>
Total Depreciation Expense	<u>\$ 469,994</u>

HOLMES COUNTY SCHOOL DISTRICT

Notes to Financial Statements  
For the Year Ended June 30, 2003

Commitments under construction contracts at June 30, 2003, are summarized as follows:

	<u>Remaining Commitment</u>	<u>Required Future Financing</u>
Administrative building	\$ 69,280	
Pavement improvements	127,950	
Field house	78,653	
Fine Arts renovations	<u>1,534</u>	
Total	<u>\$ 277,417</u>	<u>0</u>

(6) Long-term liabilities.

The following is a summary of changes in long-term liabilities and other obligations for governmental activities:

	<u>Balance 7-1-2002</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 6-30-2003</u>	<u>Amounts due within one year</u>
A. General obligation bonds payable \$	795,000		115,000	680,000	120,000
B. Limited obligation bonds payable	6,585,000		270,000	6,315,000	290,000
C. Certificates of participation payable	2,645,000		190,000	2,455,000	200,000
D. Compensated absences payable	<u>165,145</u>		<u>24,989</u>	<u>140,156</u>	
Total	<u>\$ 10,190,145</u>	<u>0</u>	<u>599,989</u>	<u>9,590,156</u>	<u>610,000</u>

A. General obligation bonds payable.

General obligation bonds are direct obligations and pledge the full faith and credit of the school district. General obligation bonds currently outstanding are as follows:

<u>Description</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Amount Issued</u>	<u>Amount Outstanding</u>
General obligation bonds, Series, 1992	Varies	11-15-92	11-15-07	\$ <u>1,255,000</u>	<u>680,000</u>
Total				<u>\$ 1,255,000</u>	<u>680,000</u>

HOLMES COUNTY SCHOOL DISTRICT

Notes to Financial Statements  
For the Year Ended June 30, 2003

The following is a schedule by years of the total payments due on this debt:

	Year Ending			
	June 30	Principal	Interest	Total
2004	\$	120,000	36,512	156,512
2005		125,000	29,559	154,559
2006		135,000	21,982	156,982
2007		145,000	13,650	158,650
2008		<u>155,000</u>	<u>4,650</u>	<u>159,650</u>
Total	\$	<u>680,000</u>	<u>106,353</u>	<u>786,353</u>

The amount of bonded indebtedness that can be incurred by the school district is limited by state statute. Total outstanding bonded indebtedness during a year can be no greater than 15% of the assessed value of the taxable property within such district, according to the then last completed assessment for taxation, unless certain conditions, as set forth in state statutes, have been met. As of June 30, 2003, the amount of outstanding bonded indebtedness was equal to 1% of property assessments as of October 1, 2002. This debt will be retired from the General Obligation Bond Fund.

B. Limited obligation bonds payable.

Limited obligation bonds are direct obligations and pledge the full faith and credit of the school district. Limited obligation bonds currently outstanding are as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
State aid capital improvement bonds, Series 1998	Varies	04-01-98	04-01-18	\$ <u>7,200,000</u>	<u>6,315,000</u>
Total				\$ <u>7,200,000</u>	<u>6,315,000</u>

The following is a schedule by years of the total payments due on this debt:

	Year Ending			
	June 30	Principal	Interest	Total
2004	\$	290,000	304,803	594,803
2005		310,000	285,953	595,953
2006		325,000	266,577	591,577
2007		345,000	246,265	591,265
2008		360,000	231,085	591,085
2009 - 2013		2,080,000	893,642	2,973,642
2014 - 2018		<u>2,605,000</u>	<u>363,940</u>	<u>2,968,940</u>
Total	\$	<u>6,315,000</u>	<u>2,592,265</u>	<u>8,907,265</u>

HOLMES COUNTY SCHOOL DISTRICT

Notes to Financial Statements  
For the Year Ended June 30, 2003

The state aid capital improvement bonds are secured by an irrevocable pledge of certain revenues the district receives from the State of Mississippi pursuant to the Mississippi Accountability and Adequate Education Program Act, Sections 37-151-1 through 37-151-7, Miss. Code Ann. (1972). The state aid capital improvement bonds are not included in the computation of the debt limit percentage. This debt will be retired from the MAEP Retirement Fund.

C. Certificates of participation payable.

As more fully explained in Note 14, certificates of participation have been issued by the school district. Certificates of participation currently outstanding are as follows:

<u>Description</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Amount Issued</u>	<u>Amount Outstanding</u>
Certificates of participation, Series 1993	Varies	04-15-93	04-15-13	\$ 3,000,000	1,780,000
Certificates of participation, Series 1999	Varies	08-01-99	07-01-16	<u>825,000</u>	<u>675,000</u>
Total				\$ <u>3,825,000</u>	<u>2,455,000</u>

The following is a schedule by years of the total payments due on this debt:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2004	\$ 200,000	127,634	327,634
2005	215,000	117,874	332,874
2006	225,000	107,149	332,149
2007	235,000	95,741	330,741
2008	245,000	83,696	328,696
2009 - 2013	<u>1,335,000</u>	<u>245,130</u>	<u>1,580,130</u>
Total	\$ <u>2,455,000</u>	<u>777,224</u>	<u>3,232,224</u>

HOLMES COUNTY SCHOOL DISTRICT

Notes to Financial Statements  
For the Year Ended June 30, 2003

This debt will be retired from the District Maintenance Fund and the EEF Building and Buses Fund.

D. Compensated absences payable.

As more fully explained in Note 1(O), compensated absences payable is adjusted on an annual basis as required by Section 37-7-307(5), Miss. Code Ann. (1972). Compensated absences will be paid from the fund from which the employees' salaries were paid.

(7) Defined Benefit Pension Plan.

**Plan Description.** The school district contributes to the Public Employees' Retirement System of Mississippi (PERS), a cost-sharing multiple-employer defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by state law and may be amended only by the State of Mississippi Legislature. PERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Public Employees' Retirement System of Mississippi, PERS Building, 429 Mississippi Street, Jackson, MS 39201 or by calling (601) 359-3589 or 1-800-444-PERS.

**Funding Policy.** PERS members are required to contribute 7.25% of their annual covered salary, and the school district is required to contribute at an actuarially determined rate. The current rate is 9.75% of annual covered payroll. The contribution requirements of PERS members and employers are established and may be amended only by the State of Mississippi Legislature. The school district's contributions to PERS for the fiscal years ending June 30, 2003, 2002 and 2001 were \$1,178,328, \$1,095,116 and \$1,087,454, respectively, which equaled the required contributions for each year.

(8) Other Commitments.

Commitments under construction contracts are described in Note 5.

Commitments under re-roofing and renovation contracts amount to \$299,149.

HOLMES COUNTY SCHOOL DISTRICT

Notes to Financial Statements  
For the Year Ended June 30, 2003

(9) Sixteenth Section Lands.

Sixteenth section school lands, or lands granted in lieu thereof, constitute property held in trust for the benefit of the public schools. The school board, under the general supervision of the Office of the Secretary of State, has control and jurisdiction of said school trust lands and of all funds arising from any disposition thereof. It is the duty of the school board to manage the school trust lands and all funds arising therefrom as trust property. Accordingly, the board shall assure that adequate compensation is received for all uses of the trust lands, except for uses by the public schools. The following are the future rental payments to be made to the school district for the use of school trust lands. These future rental payments are from existing leases and do not anticipate renewals or new leases.

Year Ending June 30	Amount
2004	\$ 330,622
2005	241,768
2006	189,109
2007	166,690
2008	144,866
2009 - 2013	1,875
2014 - 2018	1,875
2019 - 2023	1,875
2024 - 2028	1,600
Thereafter	<u>1,500</u>
Total	\$ <u><u>1,081,780</u></u>

(10) Deficit Fund Balance of Individual Funds.

The SVM Activity Fund has a deficit fund balance in the amount of \$933.

The deficit fund balance is not in violation of state law. This deficit could have been eliminated with a transfer from the District Maintenance Fund (General Fund).

(11) Prior Period Adjustments/Exhibits.

A summary of significant fund equity adjustments is as follows:

Exhibit B - Statement of Activities

<u>Explanation</u>	<u>Amount</u>
To correct a prior year error in recording an asset or liability.	\$ <u>4,054</u>
Total	\$ <u><u>4,054</u></u>

HOLMES COUNTY SCHOOL DISTRICT

Notes to Financial Statements  
For the Year Ended June 30, 2003

Exhibit D - Statement of Revenues, Expenditures and Changes in Fund Balances

<u>Major Funds</u>	<u>Explanations</u>	<u>Amount</u>
General Fund	To correct a prior year error in recording an asset or liability.	\$ 7,411
SVM Insurance Fund	To correct a prior year error in recording an asset or liability.	(3,467)
Other governmental funds	To correct a prior year error in recording an asset or liability.	<u>110</u>
	Total	<u>\$ 4,054</u>

(12) Subsequent Events.

General obligation refunding bonds were issued in the amount of \$3,190,000 at varies interest rates. Date of issuance was July 31, 2004, and the bonds will be fully matured in the year 2016.

(13) Risk Management.

The school district is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Except as described below, the district carries commercial insurance for these risks. Settled claims resulting from these insured risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Participation in Public Entity Risk Pool.

The school district is a member of the Mississippi School Boards Association Workers' Compensation Trust (MSBAWCT). The trust is a risk-sharing pool; such a pool is frequently referred to as a self-insurance pool. The trust consists of approximately 90 school districts and covers risks of loss arising from injuries to the school district's employees. The Mississippi Workers' Compensation Commission requires that an indemnity agreement be executed by each member in a workers' compensation self-insurance pool for the purpose of jointly and severally binding the pool and each of the employers comprising the group to meet the workers' compensation obligations of each member. Each member of MSBAWCT contributes quarterly to a fund held in trust by Trustmark National Bank in Jackson. The funds in the trust account are used to pay any claim up to \$175,000. For a claim exceeding \$175,000, MSBAWCT has insurance which will pay the excess up to \$1,000,000. If total claims during a year were to deplete the trust account, then the member school districts would be required to pay for the deficiencies. The district has not had an additional assessment for excess losses incurred by the pool.

## HOLMES COUNTY SCHOOL DISTRICT

### Notes to Financial Statements For the Year Ended June 30, 2003

(14) Trust Certificates.

A trust agreement dated April 15, 1993, was executed by and between the school district and Peoples Bank of Biloxi, Mississippi, as trustees.

The trust agreement authorized the issuance of trust certificates in the principal amount of \$3,000,000. The amount of \$2,975,000 was used to provide financing for the construction and renovation of school buildings and related facilities and equipment (the "project"); the remainder of \$25,000 was used to pay the cost of issuance.

A trust agreement dated August 1, 1999, was executed by and between the school district and Peoples Bank of Biloxi, Mississippi, as trustees.

The trust agreement authorized the issuance of trust certificates in the principal amount of \$825,000. The amount of \$822,231 was used to provide financing for the construction and renovation of school buildings and related facilities and equipment (the "project"); the remainder of \$2,769 was used to pay the cost of issuance.

The projects are leased to the school district in accordance with the provisions of the Emergency School Leasing Authority Act as described in Section 37-7-351, *et seq.*, Miss. Code Ann. (1972). The lease represents a capital lease under which ownership of the project will transfer to the school district upon complete retirement of the trust certificates. The school district is obligated to make lease payments to the trustee in an amount equal to the debt service requirements for the trust certificates. The lease rental payments by the school district are used by the trustee to pay the principal and interest payments due on the trust certificates.

It is not anticipated the projects will have sufficient value to satisfy the certificates in the event the school district defaults under the lease; therefore, the source of payment of the certificates is the responsibility of the school district. See Note 6 for details regarding the debt service requirement on the trust certificates.

Using the guidance provided in Section 2100 of the *Codification of Governmental Accounting and Financial Reporting Standards* dealing with defining the reporting entity, the trust accounts created by these trust agreements were deemed to constitute an inseparable part of the school district. Therefore, the assets, liabilities, equity, revenues, expenditures and other financing sources/uses of the trust accounts created by these trust agreements are part of the school district's financial statements, thereby eliminating the effects of the lease agreements for financial reporting purposes.

HOLMES COUNTY SCHOOL DISTRICT

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HOLMES COUNTY SCHOOL DISTRICT

REQUIRED SUPPLEMENTARY INFORMATION

HOLMES COUNTY SCHOOL DISTRICT

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HOLMES COUNTY SCHOOL DISTRICT  
 Budgetary Comparison Schedule  
 General Fund  
 For the Year Ended June 30, 2003

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
<b>Revenues:</b>					
Local sources	\$ 2,583,129	2,924,509	2,909,878	341,380	(14,631)
State sources	11,694,060	12,232,343	12,231,333	538,283	(1,010)
Federal sources	27,000	121,901	121,901	94,901	
Total Revenues	<u>14,304,189</u>	<u>15,278,753</u>	<u>15,263,112</u>	<u>974,564</u>	<u>(15,641)</u>
<b>Expenditures:</b>					
Instruction	9,255,910	8,678,474	8,668,321	577,436	10,153
Support services	5,024,123	4,895,421	4,904,817	128,702	(9,396)
Noninstructional services	173,170	178,939	171,814	(5,769)	7,125
Facilities acquisition and construction	480,000	254,785	596,993	225,215	(342,208)
<b>Debt service:</b>					
Principal	92,015	52,015	52,015	40,000	
Interest	136,704	136,704	136,704		
Other	2,900	1,651	1,651	1,249	
Total Expenditures	<u>15,164,822</u>	<u>14,197,989</u>	<u>14,532,315</u>	<u>966,833</u>	<u>(334,326)</u>
Excess (Deficiency) of Revenues over Expenditures	<u>(860,633)</u>	<u>1,080,764</u>	<u>730,797</u>	<u>1,941,397</u>	<u>(349,967)</u>
<b>Other Financing Sources (Uses):</b>					
Sale of other property		461	461	461	
Operating transfers in	1,068,007	554,475	404,231	(513,532)	(150,244)
Operating transfers out	(697,148)	(514,408)	(364,165)	182,740	150,243
Other financing uses	(200,000)			200,000	
Total Other Financing Sources (Uses)	<u>170,859</u>	<u>40,528</u>	<u>40,527</u>	<u>(130,331)</u>	<u>(1)</u>
Net Change in Fund Balances	<u>(689,774)</u>	<u>1,121,292</u>	<u>771,324</u>	<u>1,811,066</u>	<u>(349,968)</u>
<b>Fund Balances:</b>					
July 1, 2002	2,120,624	2,317,969	2,314,870	197,345	(3,099)
Prior period adjustments		2,225	7,411	2,225	5,186
July 1, 2002, as restated	<u>2,120,624</u>	<u>2,320,194</u>	<u>2,322,281</u>	<u>199,570</u>	<u>2,087</u>
June 30, 2003	<u>\$ 1,430,850</u>	<u>3,441,486</u>	<u>3,093,605</u>	<u>2,010,636</u>	<u>(347,881)</u>

The notes to the required supplementary information are an integral part of this statement.

HOLMES COUNTY SCHOOL DISTRICT  
 Budgetary Comparison Schedule  
 Title I Fund  
 For the Year Ended June 30, 2003

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Local sources	\$	2,888	2,888	2,888	
Federal sources	2,476,785	2,576,227	2,355,633	99,442	(220,594)
Total Revenues	<u>2,476,785</u>	<u>2,579,115</u>	<u>2,358,521</u>	<u>102,330</u>	<u>(220,594)</u>
Expenditures:					
Instruction	906,116	1,167,820	1,124,176	(261,704)	43,644
Support services	1,349,977	1,301,490	1,185,955	48,487	115,535
Noninstructional services	210,274	196,021	196,021	14,253	
Facilities acquisition and construction		60,000		(60,000)	60,000
Debt service:					
Principal	2,000	1,415		585	1,415
Total Expenditures	<u>2,468,367</u>	<u>2,726,746</u>	<u>2,506,152</u>	<u>(258,379)</u>	<u>220,594</u>
Excess (Deficiency) of Revenues over Expenditures	<u>8,418</u>	<u>(147,631)</u>	<u>(147,631)</u>	<u>(156,049)</u>	<u>0</u>
Other Financing Sources (Uses):					
Operating transfers in		151,861	151,861	151,861	
Operating transfers out	(8,418)	(4,230)	(4,230)	4,188	
Total Other Financing Sources (Uses)	<u>(8,418)</u>	<u>147,631</u>	<u>147,631</u>	<u>156,049</u>	<u>0</u>
Net Change in Fund Balances	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Fund Balances:					
July 1, 2002	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
June 30, 2003	<u>\$ 0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>

The notes to the required supplementary information are an integral part of this statement.

HOLMES COUNTY SCHOOL DISTRICT  
 Budgetary Comparison Schedule  
 Title II Fund  
 For the Year Ended June 30, 2003

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
<b>Revenues:</b>					
Local sources	\$		35		35
Federal sources	503,968	992,663	466,722	488,695	(525,941)
Total Revenues	<u>503,968</u>	<u>992,663</u>	<u>466,757</u>	<u>488,695</u>	<u>(525,906)</u>
<b>Expenditures:</b>					
Instruction	282,844	687,102	89,233	(404,258)	597,869
Support services	221,124	305,613	225,663	(84,489)	79,950
Total Expenditures	<u>503,968</u>	<u>992,715</u>	<u>314,896</u>	<u>(488,747)</u>	<u>677,819</u>
Excess (Deficiency) of Revenues over Expenditures	<u>0</u>	<u>(52)</u>	<u>151,861</u>	<u>(52)</u>	<u>151,913</u>
<b>Other Financing Sources (Uses):</b>					
Operating transfers out		(151,861)	(151,861)	(151,861)	
Total Other Financing Sources (Uses)	<u>0</u>	<u>(151,861)</u>	<u>(151,861)</u>	<u>(151,861)</u>	<u>0</u>
Net Change in Fund Balances	<u>0</u>	<u>(151,913)</u>	<u>0</u>	<u>(151,913)</u>	<u>151,913</u>
<b>Fund Balances:</b>					
July 1, 2002	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
June 30, 2003	<u>\$ 0</u>	<u>(151,913)</u>	<u>0</u>	<u>(151,913)</u>	<u>151,913</u>

The notes to the required supplementary information are an integral part of this statement.

HOLMES COUNTY SCHOOL DISTRICT  
 Budgetary Comparison Schedule  
 Sixteenth Section Interest Fund  
 For the Year Ended June 30, 2003

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
<b>Revenues:</b>					
Sixteenth section sources	\$ 803,072	987,588	841,782	184,516	(145,806)
Total Revenues	<u>803,072</u>	<u>987,588</u>	<u>841,782</u>	<u>184,516</u>	<u>(145,806)</u>
<b>Expenditures:</b>					
Sixteenth section	61,700	62,225	34,976	(525)	27,249
Total Expenditures	<u>61,700</u>	<u>62,225</u>	<u>34,976</u>	<u>(525)</u>	<u>27,249</u>
Excess (Deficiency) of Revenues over Expenditures	<u>741,372</u>	<u>925,363</u>	<u>806,806</u>	<u>183,991</u>	<u>(118,557)</u>
<b>Other Financing Sources (Uses):</b>					
Operating transfers in	15,000			(15,000)	
Operating transfers out	(756,372)	(400,000)	(400,000)	356,372	
Total Other Financing Sources (Uses)	<u>(741,372)</u>	<u>(400,000)</u>	<u>(400,000)</u>	<u>341,372</u>	<u>0</u>
Net Change in Fund Balances	<u>0</u>	<u>525,363</u>	<u>406,806</u>	<u>525,363</u>	<u>(118,557)</u>
<b>Fund Balances:</b>					
July 1, 2002	<u>0</u>	<u>0</u>	<u>658,007</u>	<u>0</u>	<u>658,007</u>
June 30, 2003	<u>\$ 0</u>	<u>525,363</u>	<u>1,064,813</u>	<u>525,363</u>	<u>539,450</u>

The notes to the required supplementary information are an integral part of this statement.

HOLMES COUNTY SCHOOL DISTRICT  
 Budgetary Comparison Schedule  
 SVM Insurance Fund  
 For the Year Ended June 30, 2003

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Total Revenues	\$ 0	0	0	0	0
Expenditures:					
Support services		18,577	17,648	(18,577)	929
Facilities acquisition and construction	88,600	137,204	50,323	(48,604)	86,881
Total Expenditures	88,600	155,781	67,971	(67,181)	87,810
Excess (Deficiency) of Revenues over Expenditures	(88,600)	(155,781)	(67,971)	(67,181)	87,810
Other Financing Sources (Uses):					
Operating transfers out	(1,040,799)			1,040,799	
Total Other Financing Sources (Uses)	(1,040,799)	0	0	1,040,799	0
Net Change in Fund Balances	(1,129,399)	(155,781)	(67,971)	973,618	87,810
Fund Balances:					
July 1, 2002	1,129,399	0	1,129,399	(1,129,399)	1,129,399
Prior period adjustments			(3,467)		(3,467)
July 1, 2002, as restated	1,129,399	0	1,125,932	(1,129,399)	1,125,932
June 30, 2003	\$ 0	(155,781)	1,057,961	(155,781)	1,213,742

The notes to the required supplementary information are an integral part of this statement.

HOLMES COUNTY SCHOOL DISTRICT

Notes to the Required Supplementary Information  
For the Year Ended June 30, 2003

Budgetary Comparison Schedule

(1) Basis of Presentation.

The Budgetary Comparison Schedule presents the original legally adopted budget, the final legally adopted budget, the actual data on the GAAP basis, variances between the original budget and the final budget, and variances between the final budget and the actual data.

(2) Budget Amendments and Revisions.

The budget is adopted by the school board and filed with the taxing authority. Amendments can be made on the approval of the school board. By statute, final budget revisions must be approved on or before the date established by the Mississippi Department of Education. A budgetary comparison is presented for the General Fund and each major Special Revenue Fund consistent with accounting principles generally accepted in the United States of America.

SUPPLEMENTAL INFORMATION

HOLMES COUNTY SCHOOL DISTRICT  
Schedule of Expenditures of Federal Awards  
For the Year Ended June 30, 2003

Federal Grantor/ Pass-through Grantor/ Program Title	Catalog of Federal Domestic Assistance Number	Federal Expenditures
<u>U.S. Department of Agriculture</u>		
Passed-through Mississippi Department of Education:		
Non-cash assistance:		
Food donation	10.550	\$ <u>112,946</u>
Child nutrition cluster:		
School breakfast program	10.553	547,314
National school lunch program	10.555	1,267,387
Summer food service program for children	10.559	72,716
Total child nutrition cluster		<u>1,887,417</u>
 Total U.S. Department of Agriculture		 <u>2,000,363</u>
<u>U.S. Department of Education</u>		
Direct program:		
Twenty-first century community learning centers	84.287	387,740
Total		<u>387,740</u>
Passed-through Mississippi Department of Education:		
Title I - grants to local educational agencies	84.010	2,355,632
Vocational education - basic grants to states	84.048	58,457
Safe and drug-free schools and communities - state grants	84.186	50,853
Innovative education program strategies	84.298	55,631
Education technology state grants	84.318	39,264
Comprehensive school reform demonstration	84.332	164,735
Title I accountability grants	84.348	122,558
School renovation grants	84.352	58,985
Improving teacher quality - state grants	84.367	466,722
Total		<u>3,372,837</u>
Special education cluster:		
Special education - grants to states	84.027	326,561
Special education - preschool grants	84.173	14,173
Total		<u>340,734</u>
Total passed-through Mississippi Department of Education		<u>3,713,571</u>
Total U.S. Department of Education		<u>4,101,311</u>

Federal Grantor/ Pass-through Grantor/ Program Title	Catalog of Federal Domestic Assistance Number	Federal Expenditures
<u>U.S. Department of Centers for Disease Control</u>		
Passed-through Mississippi Department of Education:		
Cooperative agreements to support comprehensive school health programs to prevent the spread of HIV and other important health problems	93.938	5,081
Total U.S. Department of Centers for Disease Control		<u>5,081</u>
Total for All Federal Awards		\$ <u><u>6,106,755</u></u>

NOTES TO SCHEDULE

1. This schedule was prepared using the same basis of accounting and the same significant accounting policies, as applicable, used for the financial statements.
2. The expenditure amounts include transfers out.
3. The pass-through entities did not assign identifying numbers to the school district.

HOLMES COUNTY SCHOOL DISTRICT

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HOLMES COUNTY SCHOOL DISTRICT

REPORTS ON COMPLIANCE AND INTERNAL CONTROL

HOLMES COUNTY SCHOOL DISTRICT

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## State of Mississippi

OFFICE OF THE STATE AUDITOR  
PHIL BRYANT  
AUDITOR

INDEPENDENT AUDITOR'S REPORT  
ON COMPLIANCE AND INTERNAL CONTROL OVER FINANCIAL REPORTING  
BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Superintendent and School Board  
Holmes County School District

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Holmes County School District as of and for the year ended June 30, 2003, and have issued our report thereon dated June 30, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### Compliance

As part of obtaining reasonable assurance about whether the school district's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests did not disclose any instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to management of the school district in a separate letter dated June 30, 2004, which is included in this report.

### Internal Control Over Financial Reporting

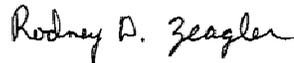
In planning and performing our audit, we considered the school district's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our opinion, could adversely affect the school district's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the Schedule of Findings and Questioned Costs as Finding 03-1.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all reportable conditions and, accordingly, would not also disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described in the finding referred to above is not a material weakness.

This report is intended solely for the information and use of the school board and management, entities with accreditation overview, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



PHIL BRYANT  
State Auditor



RODNEY D. ZEAGLER, CPA  
Director, Financial and Compliance Audit Division

June 30, 2004



## State of Mississippi

OFFICE OF THE STATE AUDITOR  
PHIL BRYANT  
AUDITOR

INDEPENDENT AUDITOR'S REPORT  
ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO  
EACH MAJOR FEDERAL PROGRAM AND INTERNAL CONTROL OVER  
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Superintendent and School Board  
Holmes County School District

### Compliance

We have audited the compliance of the Holmes County School District with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2003. The school district's major federal programs are identified in the summary of auditor's results section of the Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the school district's management. Our responsibility is to express an opinion on the school district's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the school district's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the school district's compliance with those requirements.

In our opinion, Holmes County School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2003.

Internal Control Over Compliance

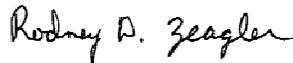
The management of the Holmes County School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the school district's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We did not note any matters involving internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the school board and management, entities with accreditation overview, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



PHIL BRYANT  
State Auditor



RODNEY D. ZEAGLER, CPA  
Director, Financial and Compliance Audit Division

June 30, 2004

HOLMES COUNTY SCHOOL DISTRICT

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH STATE LAWS AND REGULATIONS

HOLMES COUNTY SCHOOL DISTRICT

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## State of Mississippi

OFFICE OF THE STATE AUDITOR  
PHIL BRYANT  
AUDITOR

### INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH STATE LAWS AND REGULATIONS

Superintendent and School Board  
Holmes County School District

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Holmes County School District as of and for the year ended June 30, 2003, and have issued our report thereon dated June 30, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*.

Section 37-9-18(3), Miss. Code Ann. (1972), states in part, "the auditor shall test to insure that the school district is complying with the requirements of Section 37-61-33(3)(a)(iii), Miss. Code Ann. (1972), relating to classroom supply funds". As required by the state legal compliance audit program prescribed by the Office of the State Auditor, we have also performed procedures to test compliance with certain other state laws and regulations. However, providing an opinion on compliance with all state laws and regulations was not an objective of our audit and, accordingly, we do not express such an opinion.

The results of our procedures performed to test compliance with the requirements of Section 37-61-33(3)(a)(iii), Miss. Code Ann. (1972), disclosed no instances of noncompliance. The district reported \$106,465 of classroom supply funds carried over from previous years.

The results of procedures performed to test compliance with certain other state laws and regulations and our audit of the financial statements disclosed the following immaterial instances of noncompliance with other state laws and regulations. Our findings and recommendations and your responses are as follows:

1. Finding

The district failed to provide documentation that each school principal was properly bonded.

Recommendation

The district should comply with Section 37-9-31, Miss. Code Ann. (1972), which requires that all school principals and attendance center principals shall furnish good and sufficient surety bonds. The amount of such bonds shall be twenty-five thousand dollars (\$25,000), with sufficient surety. All such bonds shall be filed and recorded in the office of the clerk of the chancery court of the county in which the school district is located.

School District's Response

Prior to the finding, the district had a blanket bond which covered all principals in the district. Since the finding, the district has complied with Section 37-9-31, Miss. Code Ann. (1972), which requires that all school principals and attendance center principals shall furnish good and sufficient surety bonds and filed in the chancery court of the county in which the school district is located.

2. Finding

Employees who were acting as purchasing agents were not adequately bonded for fiscal year 2003.

Recommendation

The district should comply with Section 37-39-21, Miss. Code Ann. (1972), which requires the purchasing agent to furnish a good and sufficient surety bond in the penal sum of fifty thousand dollars (\$50,000), with sufficient surety, to be payable, conditioned and approved in the manner provided by law, and be filed and recorded in the office of the chancery clerk of the county in which the school district is located.

School District's Response

The district had a blanket bond which covered all purchasing agents in the district. However, the district has purchased bonds for each individual purchasing agent in the district.

3. Finding

The district did not prepare a list of educable children by township of children enrolled and residing in shared sixteenth section townships by December 31, as required by Section 29-3-121, Miss. Code Ann. (1972).

Recommendation

The district should comply with Section 29-3-121, Miss. Code Ann. (1972), which requires the district to compile a list of educable children enrolled and residing in the district. Such lists shall be made separately as to the township in which such children reside and filed with the superintendent of the custodial district on or before December 31 of each year.

School District's Response

The district will comply with Section 29-3-121, Miss. Code Ann. (1972), which requires the district to compile a list of educable children enrolled and residing in the district. This listing will be filed with the superintendent of the custodial district on or before December 31 of each year.

4. Finding

The district used a depository during the fiscal year that was not approved by the school board in its minutes.

Recommendation

The district should comply with Section 37-7-333, Miss. Code Ann. (1972), which states in part, "school boards shall advertise and accept bids for depositories, no less that once every three (3) years, when such board determines that it can obtain a more favorable rate of interest and less administrative processing." The financial institution(s) whose bid(s) are accepted should be approved by the school board and recorded in the official minutes.

School District's Response

The district will comply with Section 37-7-333, Miss. Code Ann. (1972), which states in part "school boards shall advertise and accept bids for depositories, no less than every three (3) years, when such board determines that it can obtain a more favorable rate of interest and less administrative processing."

5. Finding

Invoices, in some instances, were not being paid within the 45-day statutory requirement. Section 31-7-305, Miss. Code Ann. (1972), requires payments be delivered to the vendor no later than 45 days after receipt of an undisputed invoice and receipt, inspection and approval of the goods or services. If payment is not made within the required time frame, the public body is liable to the vendor, in addition to the amount of the invoice, interest at a rate of one and one-half percent per month or portion thereof on the unpaid balance from the expiration of the 45-day period.

Recommendation

The district should comply with Section 31-7-305, Miss. Code Ann. (1972).

School District's Response

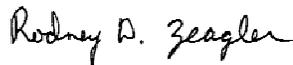
The district will comply with Section 31-7-305, Miss. Code Ann. (1972), which requires that payments be delivered to the vendor no later than 45 days of receipt of an undisputed invoice and receipt, inspection and approval of the goods or services.

The Office of the State Auditor or a public accounting firm will review, on the subsequent year's audit engagement, the findings in this report to insure that corrective action has been taken.

This report is intended solely for the information and use of the school board and management, entities with accreditation overview, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



PHIL BRYANT  
State Auditor



RODNEY D. ZEAGLER, CPA  
Director, Financial and Compliance Audit Division

June 30, 2004

HOLMES COUNTY SCHOOL DISTRICT

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HOLMES COUNTY SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

HOLMES COUNTY SCHOOL DISTRICT

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HOLMES COUNTY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2003

Section 1: Summary of Auditor's Results

Financial Statements:

- |    |   |             |
|----|---|-------------|
| 1. | Type of auditor's report issued on the financial statements:                          | Unqualified |
| 2. | Material noncompliance relating to the financial statements?                          | No          |
| 3. | Internal control over financial reporting:  |             |
| a. | Material weakness(es) identified?   | No          |
| b. | Reportable condition(s) identified that are not considered to be material weaknesses? | Yes         |

Federal Awards:

- |     |   |             |
|-----|---|-------------|
| 4.  | Type of auditor's report issued on compliance for major federal programs:   | Unqualified |
| 5.  | Internal control over major programs:   |             |
| a.  | Material weakness(es) identified?   | No          |
| b.  | Reportable condition(s) identified that are not considered to be material weaknesses?   | No          |
| 6.  | Any audit finding(s) reported as required by Section ____510(a) of Circular A-133?  | No          |
| 7.  | Federal programs identified as major programs:  |             |
| a.  | Child nutrition cluster<br>CFDA #10.553<br>CFDA #10.555<br>CFDA #10.559   |             |
| b.  | Title I - grants to local educational agencies<br>CFDA #84.010  |             |
| c.  | Improving teacher quality - state grants<br>CFDA #84.367  |             |
| 8.  | The dollar threshold used to distinguish between type A and type B programs:  | \$300,000   |
| 9.  | Auditee qualified as a low-risk auditee?  | No          |
| 10. | Prior fiscal year audit finding(s) and questioned cost relative to federal awards which would require the auditee to prepare a summary schedule of prior audit findings as discussed in Section ____315(b) of OMB Circular A-133? | No          |

HOLMES COUNTY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2003

Section 2: Financial Statement Findings

Reportable Condition Not Considered to be a Material Weakness

03-1. Finding

The following internal control weaknesses were noted during our examination of expenditure transactions selected for test purposes:

- A. In numerous instances, expenditure documentation indicated that the purchase order was prepared after the goods and/or services were received.
- B. Four expenditures were paid from copies.
- C. Invoices were not properly canceled to prevent duplication of payment.
- D. Three invoices were not signed and dated to indicate receipt of goods and/or services.

Recommendation

The district should implement the following policies and procedures, at a minimum, to correct the above noted weaknesses:

- A. Purchase orders should be prepared and approved by personnel prior to the ordering of goods and/or services.
- B. All expenditures should be paid from an original invoice.
- C. Paid invoices should be defaced or canceled with the word "PAID" stamped on the invoice. The payment date and check number should be denoted to help prevent duplicate payments.
- D. Receipt of goods and/or services should be documented by a signature or initial and date by the individual receiving the goods or services.

Section 3: Federal Award Findings and Questioned Costs

The results of our tests did not disclose any findings and questioned costs related to the federal awards.

HOLMES COUNTY SCHOOL DISTRICT

AUDITEE'S CORRECTIVE ACTION PLAN

HOLMES COUNTY SCHOOL DISTRICT

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STEPHEN BAILEY  
SUPERINTENDENT

BENNY C. MONTGOMERY  
DEPUTY SUPERINTENDENT  
FEDERAL PROGRAMS  
INSTRUCTION



**BOARD MEMBERS**

JAMES ANDERSON  
DISTRICT A  
CHARLES HURST  
DISTRICT B  
SANDRA YOUNG  
DISTRICT C  
HELEN JOHNSON  
DISTRICT D  
RAYFORD HORTON  
DISTRICT E

**HOLMES COUNTY SCHOOL DISTRICT**

*"Taking Bold Steps for the Sake of Our Children"*

**AUDITEE'S CORRECTIVE ACTION PLAN**

As required by Section \_\_\_\_ .315(b) of OMB Circular A-133, the Holmes County School District has prepared and hereby submits the following corrective action plan for the findings included in the Schedule of Findings and Questioned Costs for the year ended June 30, 2002:

**Finding**

**Corrective Action Plan Details**

2003-1

a. Name of Contact Person Responsible for Corrective Action:

Name: Stephen Bailey

Title: Superintendent

Phone: 662-834-2175

b. Corrective Action Planned:

The district will implement the following policies and procedures at a minimum, to correct the internal control weaknesses.

1. Purchase orders will be prepared and approved by personnel prior to the ordering of goods and/or services.
2. All expenditures will be paid from an original invoice.
3. Paid invoices will be defaced or canceled with the word "PAID" stamped on invoice.
4. Receipt of goods and services will be documented by a signature or initial and date by the individual receiving the goods or services.

c. Anticipated Completed Date:

June 30, 2006

**AUTHORIZED SIGNATURE**

Stephen Bailey  
Superintendent of Education

07-15-04  
Date